

BILL # SB 1002

TITLE: tax exemption; utilities; residential customers

SPONSOR: Harper

STATUS: As Amended by Senate Finance

PREPARED BY: Chris Cranny

FISCAL ANALYSIS

Description

The bill exempts residential utilities use from the Transaction Privilege Tax (TPT). The utilities classification includes electric, gas, and water services. The bill also exempts sales of liquefied petroleum gas for residential purposes from the use tax. The bill has an effective date of January 1, 2007.

Estimated Impact

The bill would reduce General Fund revenue collections by \$(62.0) million in FY 2007, which would increase to \$(143.0) million in FY 2008 once the bill is fully implemented. In addition to its impact on the General Fund, the bill would reduce funding for Proposition 301 education initiatives. The total annual revenue loss for these initiatives is estimated to be \$(8.5) million in FY 2007 and \$(19.7) million in FY 2008.

The Department of Revenue estimates that the portion of the bill exempting residential utility customers from the TPT would reduce state General Fund revenues by a minimum of \$(125.1) million. The department has not provided an estimate for the portion of the bill exempting purchases of liquefied petroleum gas for residential energy purposes from the use tax.

Analysis

The bill would exempt residential sales of electricity, gas, and water from the TPT tax and would exempt sales of liquefied petroleum gas for residential purposes from the use tax. Based on information supplied by the U.S. Department of Energy and the Arizona Residential Utility Consumer Office, total Arizona residential sales of electricity, gas, water, and liquefied petroleum gas are estimated to be \$3.2 billion in FY 2007. At the state sales tax rate of 5.6%, total taxes collected would be \$181.5 million. State utilities collections for the period of January through June average 44% of total annual utilities collections. Since the bill becomes effective January 1, 2007, total state and local revenue loss in FY 2007 would be \$(79.9) million. See *Table 1* for associated dollar values.

Table 1					
Estimated Revenue Loss					
(\$ in millions)					
	<u>General Fund</u>	<u>Prop. 301</u>	<u>Cities</u>	<u>Counties</u>	<u>Total</u>
FY 2007	\$ 62.0	\$ 8.5	\$3.6	\$ 5.8	\$ 79.9
FY 2008	\$143.0	\$19.7	\$8.2	\$13.3	\$184.3

Local Government Impact

Transaction Privilege Tax (TPT) revenues are shared with local governments and any reduction in these collections would result in decreased funding for local governments. The bill would reduce city sales tax revenues by approximately \$8.2 million and county sales tax revenues by \$13.3 million once the bill is fully implemented in FY 2008. The provision to exempt sales of liquefied petroleum gas from the use tax would not impact local revenue collections, since all use tax collections are retained by the state.

Besides the tax at the state level, the counties assess their own individual utilities taxes. Exempting retail residential utility customers from paying the state tax would not exempt them from the county tax; however, the counties already have the authority to grant exemptions.